

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON,
ARIZONA**
**Minutes of the Special Meeting
of the Board of Directors**

December 4, 2009

At the
Ward VI Council Office East Meeting Room
3202 East First Street
Tucson, Arizona 85716

Present:

Board Members	Marilyn Robinson Christopher Carroll Gary Bachman Randi Dorman Maggie Amado-Tellez Adam Weinstein (10:15 a.m.) Pamela Sutherland (10:15 a.m.) Evelia Martinez (10:20 a.m.)
Staff	Gary Molenda, Business Development Finance Corporation Karen J. Valdez, Business Development Finance Corporation Charles W. Lotzar, Lotzar Law Firm, P.C.
Guests	Andrea Ibáñez, City of Tucson Housing & Community Development Marvin Shaver, Warehouse Arts Management Organization (WAMO) Patricia Schwabe, Peach Properties Brenda Todaro, WAMO
Absent	

The Special Meeting of the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona (the “**Authority**”) was held on **December 4, 2009**, at the Ward VI Council Office, 3202 East First Street, Tucson, Arizona. All Authority’s Board Members and the general public were duly notified of the meeting. C. Lotzar explained that Arizona’s Open Meeting Laws allow for members of the Authority’s Board of Directors and legal counsel to appear and participate in the meeting telephonically so long as all participants in the meeting can hear and be heard.

ITEM	ACTION TAKEN/TO BE TAKEN
I. Call to Order.	The meeting was called to order at 10:10 a.m. with a quorum present.
II. Request for resolution to approve the minutes of the Board of Director’s Special Meeting of November 2, 2009.	A MOTION was made and seconded (G. Bachman / M. Amado-Tellez) to approve the November 2, 2009 meeting minutes as presented. Approved 5-0.

III. Discussion and request for resolution granting approval for participation in the Housing Finance Agency New Issue Bond Program and the issuance of The Industrial Development Authority of the City of Tucson, Arizona Qualified Mortgage Revenue Bonds, Series 2009 in the principal amount not in excess of \$25,000,000 and approving other documents and matters relating to the bonds.

C. Lotzar provided background information noting that he has done over a billion dollars in this product type but never at this level. Mr. Lotzar explained that the Authority had to compete for the opportunity to participate in the New Issue Bond Program (“NIBP”), and as a result of being consistent and prolific issuers of qualified single family mortgage revenue bonds (“MRB”) and mortgage credit certificates (“MCC”), the Authority was allocated approximately **\$29,000,000** exclusively because of this fact. Mr. Lotzar stated that this is a new program that has never before been done and requires established good relationships in place as the program is moving fast with extremely compressed deadlines. The bet is that mortgage loan interest rates will rise and the Authority will make money if mortgage loan interest rates rise. If interest rates go down, the Authority will lose money. The mortgage loan interest rates were locked at the **10-year** Treasury rate, which at the time was **3.21%** plus a **60** basis point spread.

Mr. Lotzar introduced Scott Riffle, Senior Vice President of George K. Baum & Company (“GKB”), who is one of the largest firms in the country issuing tax-exempt single family mortgage revenue bonds. Mr. Riffle stated that the locking of the rate is more a function of being lucky than smart, but locked **90%** of GKB clients the day the rate was **3.21%**. Mr. Riffle stated that this will be an **AAA** rated deal with a **60** basis point spread added by the Treasury making the base rate **3.81%**; as a result, the Authority has flexibility in setting its mortgage rate. It was noted that the break-even rate is **4.30%**, which means the Authority recoups all costs associated with this transaction. Today, the **FHA 30-year** fixed interest rate mortgage loan interest rate is **5%** and going up. Mr. Riffle reviewed the Sources and Uses of Funds provided in the Board Packet. Mr. Riffle stated that this program is to be considered a “**rescue package**” which will provide a perfect hedge for **2010**. Under normal circumstances, the Authority would not be able to issue bonds in this market traditionally and noted that there are **3** hindrances that have kept single family MRB programs out of the market: **1)** could not put a mortgage loan interest rate out that would be attractive, **2)** negative arbitrage problem or cost of borrowing, and **3)** lack of funds for down payment assistance.

Mr. Lotzar and Mr. Riffle reviewed the program thoroughly with the Authority and noted that unique to this program is the inability to raise down payment assistance (“**DPA**”) and also a limit to the program of **\$25,000,000** (which is why the Authority returned some of its **\$29,000,000** allocation). The program has been structured with The Industrial Development Authority of the County of Pima (“**Pima IDA**”) who also has a **\$25,000,000** allocation, making the total program **\$50,000,000** which is roughly **40%** higher than any other program. It was noted that no bond proceeds can be used for Cost of Issuance (“**COI**”). Mr. Lotzar stated that the Federal Government will be the sole buyer of these bonds. The legislation which the Government is using to assist Housing Finance Authorities (“**HFA**s”) expires at **midnight on December 31, 2009**, which is the reason for the hard and fast deadlines. Mr. Lotzar explained that the Authority and Pima IDA will be issuing on a taxable basis that will convert to tax-exempt bonds. This will have no effect on the economics, however, there are **2** concepts associated with this function: release and conversion.

Mr. Lotzar discussed prior joint programs issued by the Authority/Pima IDA, noting that one of the most important things in the market is certainty and consistency. This program, unlike previous programs, will be a companion program that has a joint effect that will be allowed under an Intergovernmental Agreement. As a political subdivision based on statute, the Authority needs to comply with Arizona State Statutes (“**State Statutes**”). Documents required by the State Statutes: **(A)** General Plan and **(B)** Standards and

A **MOTION** was made and seconded (C. Carroll / E. Martinez) to approve resolution as presented recognizing that it includes the General Plan and Standards and Requirements. **Approved 8-0.**

<p>Requirements. These are designed to answer basic questions. The approving resolution incorporates these 2 statutory documents. Marilyn Robinson stated that the Mortgage Revenue Bond Program is how the Authority makes money to put back into the community in other ways. The effort that goes into doing these programs is critical to the Authority.</p>	
<p>IV. Discussion and request for resolution authorizing all actions necessary to obtain a 2009 Carryforward Allocation of Private Activity Bonding Authority in the amount of \$19,999,999 for the purpose of providing the allocation required for the issuance of qualified mortgage revenue bonds (“MRBs”) and/or the establishment of a qualified Mortgage Credit Certificate (“MCC”) Program to the extent permitted by Arizona Revised Statutes Section 35-901 onward.</p> <p>C. Lotzar stated that prior to joining the Authority none of the Arizona Industrial Development Authorities (“IDAs”) have ever used the opportunity to get a carryforward allocation for Single Family Programs. Mr. Lotzar explained that the way the State Statutes works, Authorities receive an allocation for Single Family Programs during a time frame of January 2nd to July 1st. A few years back, the Authority requested \$8,000,000 which was then used for the 2007 Mortgage Credit Certificate Program that was fully originated in 2008. Last year, the Authority received \$19,999,999 allocation. Today’s approving resolution will allow the Authority to use this allocation to be used with the existing allocation in a like amount to get to the \$25,000,000 needed for the 2009 New Issue Bond Program and thereby preserve the 2010 allocation the Authority will have by Statute in January 2010. Mr. Lotzar explained that this is basically a hedge of volume cap and suggested that this is in the best interest of the Authority to do this. The cost is the same as a regular allocation which translates to \$320 per million dollars plus an application fee of either \$750 or \$1,000.</p>	<p>A MOTION was made and seconded (E. Martinez / R. Dorman) to approve resolution authorizing all actions necessary to obtain 2009 Carryforward Allocation. Approved 8-0.</p>
<p>V. Discussion, potential Executive Session, and request for resolution regarding (a) the assembly of downtown real estate, including negotiations with the City of Tucson related to transfer of ownership of land and various actions related to the acquisition of real estate from the Arizona Department of Transportation (“ADOT”), (b) establishment of a loan fund that would provide financing to qualified applicants upon terms acceptable to the Authority related to acquisition, renovation, or development of downtown real estate, (c) collaboration between the Authority and other community stakeholders to establish a loan fund that would provide financing to qualified applicants upon terms acceptable to the Authority related to acquisition, renovation, or development of downtown real estate, and (d) exploring opportunities with other stakeholders related to potential financing mechanisms or sources of funds related to acquisition, renovation, or development of downtown real estate. Pursuant to Arizona Revised Statutes Section 38-431.03(A)(3), (4) and/or (7), the Authority may vote to recess and meet in Executive Session for the purpose of (i) discussion or consultation for legal advice with the Authority’s legal counsel in connection with this item, (ii) discussion or consultation with and to provide direction to the Authority’s legal counsel in connection with this item, and (iii) discussions or consultations with members of the Board of Directors, its staff and legal counsel to consider its position and instruct them regarding negotiations for the purchase, sale or lease of real property, specifically, the real property involved in connection with this item. Any action taken by the Authority regarding this matter will be taken in open meeting session (either at this meeting or at a later date) after the adjournment of the Executive Session.</p> <p>C. Lotzar discussed Open Meeting Laws with the Authority's Board of Directors and stated that Executive Sessions are an exemption from the open meeting laws to deal with sensitive matters. If the Authority votes to go into Executive Session, guests will be asked to leave the room and 2 sets of meeting minutes will be taken for: 1) Regular Session and 2) Executive Session. Although the Authority has the ability to go into Executive Session, there is no obligation to do so.</p>	

To assist the Authority in considering direct investment, G. Molenda reviewed the Memorandum to the Authority's Board of Directors dated **November 28, 2009** and source documents provided in the Board Packet which analyzes **1)** potential funding that is needed to acquire and renovate building located in or around the downtown warehouse district, and **2)** the Authority's capacity to fund loans from its internal sources. G. Molenda also reviewed with the Authority a spreadsheet identifying downtown properties that are currently for sale or coming up for sale, with corresponding appraised values and estimated cost for renovations. It was noted that these costs estimates are very preliminary and conceptual.

M. Robinson reviewed with the Authority the Loan Portfolio Summary.

G. Molenda stated that every local loan fund of whatever source is a precious resource noting that the key concept, typically in design that may be considered, is that you want to get the money back. To get the money back, you want to make good loans so funds can be re-lent. The Authority historically has done a good job in making loans; with no losses to date and all outstanding loans current. Another concept is portfolio diversification. Discussion ensued including a review of historical public policy decisions. Areas to review: **1)** grants versus loans, **2)** is the Authority going to compete with banks or be the lender of last resort, etc.

G. Molenda stated that historically, the Authority provided limited grants under particular circumstances noting that the mission statement that was adopted talks about making sustainable investments.

P. Sutherland stated that in order to make a business judgment on which of the tools the Authority should be using, it is important to focus on what the tools are, and the cost of using those tools versus the benefits. P. Sutherland mentioned possible tools to consider:

- cash
- establishing a line of credit for commercial loans
- bond funds tailored toward a specific project
- set up or participate in some sort of fund (i.e. real-estate investment trust fund)

P. Sutherland questioned the cost versus benefit of a taxable bond in the amount of **\$10,000,000 - \$15,000,000** and what the likelihood of doing it in the current market. A. Weinstein commented that the catch all for all possible tools mentioned is a Community Development Financial Institution ("**CDFI**") and stated that the establishment of a CDFI would allow for a huge level of flexibility.

C. Lotzar disclosed that he has been the Attorney for Chicanos Por La Causa, Inc. ("**CPLC**") for the past **25 years**, set up their CDFI, and helped them successfully compete for New Markets Tax Credits ("**NMTC**") twice. Mr. Lotzar stated that the Authority has the ability to do the following:

- Set up a CDFI
- Convert Dark Mountain Development Corporation ("**Dark Mountain**") to a CDFI.
- Compete for CDFI funds successfully – (Cost would be approximately **\$25,000**)
- Compete for NMTC based on achieving CDFI status (high probability of not winning first time out)

Mr. Lotzar stated that as stewards of public money, a decision has to be made as a group as to what the Authority will be. Discussion ensued regarding the Authority's mission statement and whether or not it needs to be revised.

M. Robinson stated that because the Authority is stewards of public funds, care needs to be taken to not compete with banks, private businesses, etc. M. Robinson questioned whether fiduciary responsibility could be separated with regard to funds obtained through

<p>other sources.</p> <p>C. Lotzar responded that any money obtained by the Authority, no matter the source, should be viewed as "public money."</p> <p>R. Dorman stated that with regard to the Authority's mission and goals, it is important for the Authority to set priorities.</p> <p>G. Bachman questioned whether the Authority supports the mission and goals as stated or whether these need to be revisited. Discussion ensued regarding possible partnership with Pima IDA or others to have some participation that would have a major annualized economic impact on regional economy.</p> <p>C. Lotzar stated that one thing that is important to bond issues is that there must be a source of repayment. Mr. Lotzar noted that whenever looking at something, the question is not just what tool exists, but the proposed transaction or tool that fit within the Authority's special status. Basically, if focusing on the Authority's "strike zone" which is Private Activity Bonds ("PAB"), projects must fit within very limited sections of the Internal Revenue Code (the "IRC"): manufacturing facilities, facilities for IRC Section 501(C)3's, apartments, etc.</p> <p>G. Molenda discussed the meeting held yesterday that he and M. Robinson had with the City Manager ("Manager") to discuss in particular what problems the City of Tucson is trying to solve. The City of Tucson is focusing on alignment and overlay zoning. The Manager indicated that any funds the Authority could bring to bear could be available to developers that opted in for the pad overlay for the district creating alignment on policy and implementation. The Manager is also looking at a number of ways the Authority could work in concert with other ideas being developed. As an example: Community Facilities District.</p> <p>M. Robinson stated discussion on 450 N. Main Ave. (Arts BBQ site) will be held next Friday at the Special Meeting. P. Sutherland requested that staff be directed to prepare a financial cost versus benefit analysis at the \$10,000,000 level for the following:</p> <ol style="list-style-type: none"> 1) Line of Credit; 2) Taxable bond issue specifically for commercial development within the Warehouse Arts District; and 3) To establish a real estate investment fund. <p>Additionally, information is requested on Community Facilities Districts and whether or not it is worth pursuing.</p> <p>G. Bachman stated that it is important to understand the risks involved especially as it applies to repayment.</p> <p>C. Lotzar stated that bankers could be brought in so that this is not just an academic exercise.</p> <p>P. Sutherland stated that it is unnecessary to bring bankers in at this point.</p> <p>M. Robinson stated that due to the upcoming deadlines associated with the NIBP, a subjective report or summary can be provided at next week's meeting and follow-up in January 2010.</p> <p>Discussion ensued regarding Community Development Block Grants ("CDBG") and HUD Section 108 Loan Guarantee Program. Staff was directed to add these 2 programs to the task to do list.</p>	
<p>VI. Call to the Public: This is the time for the public to comment. Members of the</p>	

<p>Authority's Board of Directors may not discuss items that are not specifically identified on the Agenda. Therefore, pursuant to Arizona Revised Statutes Section 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism or scheduling the matter for further consideration and decision at a later date.</p> <p>There was no one present in the audience who wished to address the Authority.</p>	
<p>VII. Adjourn Special Meeting.</p>	<p>A MOTION was made and seconded (P. Sutherland / G. Bachman) to adjourn the meeting. Approved 8-0 – meeting adjourned at 12:22 p.m.</p>

Submitted by:

Approved by:

Karen J. Valdez
Business Development Finance Corporation

Marilyn Robinson, President
The Industrial Development Authority of the
City of Tucson, Arizona